

**PILOT LOCAL
GOVERNMENT
PARTNERSHIP PROGRAM**

**ENTERPRISE FINANCIAL
ANALYSIS OF THE
MZK SP. Z.O.O.
(BUS TRANSPORT
COMPANY)
OSTRÓW WIELKOPOLSKI,
POLAND**

Prepared for



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EXECUTIVE SUMMARY

INTRODUCTION

Under the Pilot Local Government Partnership Program (Pilot LGPP), USAID has been providing assistance to Ostrow-Wielkopolski and two of its enterprises—the water and sewer utility (Wodkan) and the bus transport company (MZK) in the area of enterprise finance. This report presents the results of the financial analysis of MZK, Sp. z.o.o.

During May the Pilot LGPP advisors working in the area of municipal and enterprise finance visited Ostrow-Wielkopolski to discuss coordinating the application of tools and technical assistance in four areas of municipal finance. A presentation of the enterprise financial condition model was made to President Kruszyński, Vice President Kierstein, Secretary Krakowski, Treasurer Fraszczek, Holdicom Director Kupijaj and Presidents and representatives from the water, bus transport, central heating and solid waste enterprises. The model is a tool used to project the financial condition of an enterprise and develop a financial plan, considering alternative strategies for capital investment, financing and pricing.

At the conclusion of the presentation, Mayor Kruszyński requested assistance from the Pilot LGPP advisors in applying the enterprise model to as many enterprises as possible and he informed presidents of the various enterprises that they would need to present such financial analysis in support of future requests for price increases to the Gmina Council.

It was decided that the model would be applied in two enterprises—Wodkan and MZK. The Mayor requested that gmina staff and representatives from other enterprises be given as much exposure as possible during the process so that they would also be able to apply the model. Pilot LGPP advisors began working with the two enterprises in May.

This report presents the financial analysis of MZK, sp. z.o.o. A summary of the findings is included in this Executive Summary. The first section of the report presents a profile of the company. A discussion of assumptions used in making the projections are presented in the second section. The final section discusses the two scenarios in more detail and shows the results.

SUMMARY OF FINANCIAL ANALYSIS

In developing the financial plan for MZK, two scenarios were considered showing the results of alternative policy decisions regarding pricing and methods of financing capital investments which the gmina may choose. Most assumptions are consistent for both scenarios, including the strategy of replacing old-type buses with new buses with a longer useful life, assumptions as to ridership, employment levels and operating expenses.

Assumptions related to pricing of tickets and financing of capital investments are different between the two scenarios.

The first scenario assumes that the gmina will increase its equity share in MZK in order to provide funds for purchasing new buses. Prices would increase only with inflation, in other words prices remain at 1998 levels throughout the projection period. The result is that the gmina would be required to invest over 11 million PLN in MZK stock over the next ten years. This scenario would probably not be acceptable to gmina officials, who have clearly stated that municipal service enterprises should become financially self-sufficient to the extent possible. Details of this scenario and results are presented in the final section of this report.

The second scenario assumes the gmina will not increase its equity share of MZK over the projection period. No capital contributions by the gmina are assumed. Instead MZK would borrow to purchase new buses. In order to finance capital investments from a combination of internal sources and debt, MZK's prices would have to increase faster than inflation. The company has already planned to increase the price of a full fare ticket to 1 zł in 1998. This would be a 25 percent increase (9 percent in real terms). Projected price increases will be lower in subsequent years and prices may be frozen after 2003. Details of this scenario and the results are presented in the final section of this report.

A third scenario which was also analyzed is not presented here because it was not considered by advisors and MZK management to be a feasible alternative. Under this third scenario, MZK's prices would increase with inflation (no real increase), the gmina would provide no investment funds and MZK would purchase only as many buses as it could afford on its own. The result is that the company could not afford to replace all of the buses liquidated. The current level of the fleet could not be maintained. Some routes would have to be dropped, resulting in a reduction in ridership, ticket sales and revenues. The reduced level of service to the residents of Ostrow-Wielkopolski would undoubtedly be unacceptable to MZK's customers and gmina officials. In addition, such a plan would not be acceptable to employees or management of the company.

The first and second scenarios present a clear policy choice for the gmina. If it wants MZK to fund all of its own capital investments, price increases will be required. If it desires to keep prices at the current level (increasing only with inflation), it will be required to increase the equity capital of MZK in the coming years. The gmina may choose some combination of these strategies, providing some equity funding in order to keep price increases lower.

PILOT LOCAL GOVERNMENT PARTNERSHIP PROGRAM

ENTERPRISE FINANCIAL ANALYSIS OF THE MZK SP. Z O.O. (BUS TRANSPORT COMPANY) OSTRÓW WIELKOPOLSKI, POLAND

PROFILE OF MZK

Since the end of 1995 MZK has operated as a limited liability company, with the Municipality of Ostrów-Wielkopolski as the sole owner through its holding company, HOLDICOM s.a. The mission of the company is to provide city transportation services for the citizens of Ostrów Wielkopolski and neighboring municipalities.

President Jerzy Rataj, Deputy Director Jerzy Walczynski and Chief Accountant Eugenia Chudzicka worked with Pilot LGPP advisors in developing the financial analysis.

MZK has 176 employees, organized around the following activities:

- Bus operations
- Maintenance and repair workshops
- Administrative and general

During 1996, MZK buses carried over 7.5 million passengers. Roughly 40 percent of the passengers pay full fare for tickets; 30 percent are students who receive discount tickets and passes and the remaining 30 percent are allowed to ride for free.

Ridership peaked in 1990 and began a decline which lasted for four years. Since 1994 ridership has been fairly stable and management does not expect further declines in the near future.

The current price of a full-fare ticket is 80 gr. The most recent price increase was on December 1, 1996, when the price was increased from 70 gr (14 percent). Ticket prices are well below the national average of 1 zloty, but a 25 percent increase planned for the coming year will bring prices closer to the national average. Price increases must be approved by the gmina council.

When MZK became a limited liability company, the gmina changed the way in which it provided operating subsidies to the company. Each year a calculation is made of the number of discount and free riders expected to receive service in the coming year in accordance with gmina social policy. The gmina pays MZK the difference between the price of full-fare tickets and the discount or free tickets. Payments are made on a monthly basis. Gmina payments to MZK are recorded as revenues to the company.

The Company had revenues of 7.6 million PLN from November 1995 to December 1996 and net income of 10,000 PLN.

MZK renders passenger transportation services with the use of forty-eight buses, which run 20 routes within the city limits of Ostrów Wielkopolski plus two inter-city routes to and from the neighboring gminas of Kalisz and Krotoszyn. Approximately 3 million kilometers are traveled each year by MZK buses.

The fleet of the Company has become more and more depreciated as buses have reached the end of their useful lives without being replaced. There is a need for continuous modernization, which is a condition necessary for the company to be able to fulfill its mission effectively. The average age of MZK's fleet is now 6.5 years.

MZK has followed the policy of making general overhauls on buses after they have been in operation for approximately eight years. The overhauled buses are then replaced after another four to six years.

The repair and maintenance workshops of MZK service the company's buses and vehicles belonging to other firms as well.

PROJECTION ASSUMPTIONS

Financial projections for the next ten years were prepared assuming inflation of base prices, unit variable costs, overall fixed costs and capital spending. Assumptions concerning the inflation rates for 1997 - 2006 are shown in Exhibit 1.

These assumptions are different than the official data announced by the Ministry of Finance, CUP and other institutions handling macro-economic analyses. A higher inflation rate is used in order to be consistent with assumptions used for the financial analyses of the Municipality of Ostrów Wielkopolski.

Exhibit 1
Assumptions Concerning Inflation (in percent)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Inflation (%)	19	17	15	12	10	10	8	8	8	8	8

Revenues and expenses were projected based on actual amounts and trends experienced in recent years. Items which are considered variable were determined in

relation to the factors which can have a direct impact on them, i.e., the number of buses, mileage or the planned number of passengers to be transported.

Ridership

The number of passengers and tickets sold by category is projected to remain constant during the projection period as shown in the following table.

Exhibit 2
Projection of Ridership

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
PASSENGERS (est.)											
Single use tickets - Ostrów	4,223	4,100	4,100	4,100	4,100	4,100	4,100	4,100	4,100	4,100	4,100
Full fare	209	200	200	200	200	200	200	200	200	200	200
Half price	219	200	200	200	200	200	200	200	200	200	200
Monthly pass - Ostrów	8	8	8	8	8	8	8	8	8	8	8
Full fare (est.)	9	9	9	9	9	9	9	9	9	9	9
Half price (est.)	9	9	9	9	9	9	9	9	9	9	9
Free rides											
Free rides by resolution of City Council (est.)	1,670	1,670	1,670	1,670	1,670	1,670	1,670	1,670	1,670	1,670	1,670
(Other under 4-year old passengers on 70)											
Single use tickets - children	209	209	209	209	209	209	209	209	209	209	209
Full fare	104	100	100	100	100	100	100	100	100	100	100
Half price	105	109	109	109	109	109	109	109	109	109	109
Monthly pass - children	0	0	0	0	0	0	0	0	0	0	0
Full fare (est.)	4	4	4	4	4	4	4	4	4	4	4
Half price (est.)	5	5	5	5	5	5	5	5	5	5	5

Revenues

The revenues of the company come from the following sources:

- ! Bus transportation including revenues on ticket sales and payments from neighboring municipalities for services rendered to their residents.
- ! Revenues from the city budget for subsidized passengers (covering the difference between the reduced and full fare) and full reimbursement of free rides.
- ! Sale of automotive services, advertisements and resale materials.

Bus transportation revenues are calculated based on the number of passengers in each category times ticket prices. As discussed in the final section ("Results"), different assumptions regarding price increases were used in each of the two scenarios.

Revenues from neighboring municipalities are based on kilometers traveled times the agreed upon rate per kilometer. Projected revenues from other sources have been based on trends predominant in the previous periods.

Operating Expenses

Expenses have been projected separately for each of the three activities listed above. Major assumptions are described in this section.

Number of Buses in Service

Many operating expense line items vary based on the number and type of buses in service. In 1998 the fleet will be reduced by one bus based on the capital investment plan developed by management. Thereafter, the size of the fleet is projected to remain constant as shown in the following table. No change in service is projected; there will simply be fewer buses out of service for maintenance at any given time.

Exhibit 3
MZK Fleet of Buses

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total Buses in Service	48	48	47	47	47	47	47	47	47	47	47
Old type	44	44	39	35	32	28	23	18	17	14	13
- overhauled	19	21	17	18	22	24	19	16	15	14	13
- not overhauled	25	23	22	17	10	4	4	2	2	0	0
New type	2	2	6	10	13	17	22	27	28	31	32
Coaches	2	2	2	2	2	2	2	2	2	2	2

Employment

The number of employees is projected as follows:

Exhibit 4
Employment Level - 1997-2006

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Drivers	88	88	86	86	86	86	86	86	86	86	86
Workshops	52	49	47	45	44	42	40	38	38	36	36
Admin. & general	35	32	32	32	32	32	32	32	32	32	32
Total	176	169	164	163	161	160	158	156	155	154	154

The number of drivers is projected based on maintaining the current ratio of 1.8 drivers per bus. As the number of buses in service decreases in 1998, the number of employees is projected to decrease by two. Throughout the remainder of the projection period, the number of drivers remains constant.

It is assumed that new buses in the fleet will require fewer support personnel than the older type buses. The number of support personnel is calculated as 1 employee for each old-style bus and 0.5 employee for each new style bus.

General Expense Assumptions

The majority of expenses increase at the rate of the inflation. Exceptions are compensation, tire and fuel prices. They increase as follows:

- Average compensation increases at the rate of: inflation + 1%
- The costs of tire and fuel increase at the rate of: inflation + 5%

Payroll surcharges are project as 46 percent of the total personnel costs based on the actual ratio in 1996.

Expenses Related to Bus Operations

- ! Drivers' compensation is determined as the number of drivers times the projected average compensation.
- ! Fuel costs are projected based on the number of kilometers traveled and the average fuel consumption.
- ! The costs of tires has been projected on the basis of the number of buses in service and the assumed rate of increase in tire prices.
- ! Insurance, taxes on vehicles, transportation and general overhaul expenses are also a function of the number of buses in service and the assumed cost per bus.

Costs Related to Vehicle Repairs and Maintenance

- ! Total compensation of workshop employees is projected based on the number of workers times the projected average compensation.
- ! Materials used in workshops are assumed to increase with the number of buses in service.

Administrative and General

! Administrative staff compensation, like other wages, are projected based on the number of employees and the average compensation of this group of employees. No increase in employees in administrative and overhead functions is projected throughout the planning period.

! Other expenses are assumed to increase with inflation.

Exhibit 5 Projected Expenses

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Personnel expense	3431	3872	4340	4787	5270	5685	6133	6669	7222	7853
- Drivers	1770	2010	2271	2521	2798	3050	3325	3624	3950	4306
- Subsidiaries	784	864	942	1018	1088	1128	1168	1259	1328	1431
- Administration	737	855	966	1073	1191	1298	1415	1542	1681	1832
- Bonuses & benefits	110	108	121	133	147	159	171	185	200	216
- Other	30	34	38	42	47	50	54	59	63	68
Bus operations exp.	1989	2195	2684	3546	4184	3417	3815	4262	4762	5323
Other expenses	1438	1652	1851	2036	2239	2418	2612	2821	3047	3290
Total operating exp.	6857	7719	8875	10369	11693	11521	12560	13751	15030	16466

Capital Investments

In order to achieve projected revenues, the fleet of the company must be maintained at least at the present level—in terms of both quantity and quality. In order to maintain the fleet at its present level, it is necessary to replace all the old-type buses in use now as they reach the end of their useful lives. Approximately 9 percent of the fleet will need to be replaced each year.

The current policy is to overhaul buses after about eight years of service, extending their useful life for four to six more years. Management has determined that service will be improved and there will be cost savings if old-type buses now in service are gradually replaced with buses with a longer expected useful life. Overhauls of the old-type buses now in service will continue through the year 2001, when all have been replaced. The average overhaul per bus costs about PLN 120,000, which is projected to increase with inflation over the projection period.



As far as the new type buses are concerned, the expected useful life is 15 years with no overhaul. After 15 years the buses will be liquidated, with no expected salvage value.

Under this policy, the overhaul and replacement schedule for 1997 - 2006 is as follows:

Exhibit 6
Fleet Overhaul and Replacement Schedule

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Subsequent overhauls	2	1	2	5	6	0	0	0	0	0
New purchases	0	4	4	3	4	5	5	1	3	1

Provided the fleet is overhauled and replaced in accordance to the schedule, the following fleet structure will be obtained:

Exhibit 7
MZK Ostrów Wlkp. Bus Fleet

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Buses	48	48	47	47	47	47	47	47	47	47	47
Old type	44	44	39	35	32	28	23	18	17	14	13
- overhauled	19	21	17	18	22	24	19	16	15	14	13
- not overhauled	25	23	22	17	10	4	4	2	2	0	0
New type	2	2	6	10	13	17	22	27	28	31	32
Coaches	2	2	2	2	2	2	2	2	2	2	2
Average bus age (yrs.)	6.4	7.4	7.2	7.4	7.7	7.5	7.0	6.6	7.3	7.5	8.2

As shown in the table above, the average age of buses will be increasing gradually throughout the projection period. This is not cause for concern because, as the mix of the fleet changes from old-type buses to new-type buses, the useful life is extended.

New buses will be purchased beginning in 1998 at a price of PLN 650,000 per bus. This price is projected to increase with inflation over the next ten years.

Capital expenditure and the cost of bus overhauls is shown in the table below:

Exhibit 8
Planned Expenditure for New Bus Purchases and Overhauls

(PLN '000)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Overhauls	240	138	309	850	1122	0	0	0	0	0
Bus purchases	0	2600	2912	2402	3524	4757	5137	1110	3595	1294

The cost of overhauls is expensed, whereas only the purchase of buses, machinery and equipment is regarded as capital investments.

Depreciation

Depreciation of existing fixed assets has been projected based on historical data. New buses will be depreciated at a rate of 17 percent per annum. Depreciation for book and tax purposes is calculated according to the same rate. Other newly purchased assets will be depreciated at an annual rate of 15 percent.

Investment Financing

Management is exploring the possibility of financing a portion of MZK's capital investments with a bank loan. Yet, the level of borrowing over the coming years will depend on the ability of the company to service the debt.

For projection purposes, uniform conditions for borrowing in subsequent years have been adopted as follows:

- Interest rate at the level of WIBOR + 7%, where WIBOR = inflation + 4%
- Interest is repaid on a monthly basis
- Principal is repaid in 16 equal quarterly installments

RESULTS

Financial projections have been prepared under two scenarios with different strategies for pricing and financing capital investments. Both assume maintenance of the present scale of company operations and good technical order of the fleet through investment in new buses and overhauls.

Scenario 1

The first scenario assumes that MZK finances capital investments from internal sources and through borrowing on its own to the extent possible. Any shortfall would then be covered by the gmina through contributions to the equity of MZK over the next years. This scenario assumes no real increase in ticket prices after 1998.

Exhibit 9 Projected Average Full Fare Ticket for City Transportation

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Current prices	0,80	1,00	1,12	1,23	1,36	1,46	1,58	1,71	1,84	1,99
1997 prices	0.80	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.87

In addition to providing payment for reduced and free fare riders, the gmina will also increase its equity share in MZK by contributing funds to be used for capital investment. Total requirements on the gmina budget are shown in the following table and graph.

Exhibit 10 Requirements on the Gmina Budget for MZK

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Equity contribution	0	0	1000	2000	3300	0	2600	0	2300	0
Payment for tickets	2328	2910	3259	3585	3943	4258	4599	4967	5364	5793
Total	2328	2910	4259	5585	7243	4258	7199	4967	7664	5793

Exhibit 11 Requirements on the Gmina Budget for MZK

The level of required equity contributions over the next ten years is projected to amount to PLN 11.2 million, which in 1997 prices is equivalent to PLN 6.8 million.

Exhibit 12
Projected Revenues by Type

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues on bus transportation services	4878	5941	6654	7319	8051	8695	9391	10142	10954	11830
Other activities	560	648	729	806	891	965	1047	1134	1230	1333
Gmina pymt. for tickets	2328	2910	3259	3585	3943	4258	4599	4967	5364	5793
Total	7765	9498	10642	11710	12885	13919	15037	16244	17548	18957

The amount of borrowing MZK may do on its own is determined such that the debt service ratio would not fall below the level of 1.3 to 1.4.

Exhibit 13
Level of Borrowing MZK Can Support

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
New borrowing	0	2000	1000	0	0	3600	1900	600	900	400
Outstanding debt	0	1625	2000	1250	500	3275	3913	3063	2325	1375

An advantage of this first scenario is that an adequate ratio of shareholders equity to fixed assets is maintained. This would undoubtedly be helpful in negotiating bank loans.

As shown in the table below, the projected economic ratios for this the Company are satisfactory.

- The Company can generate a surplus on operations
- The assets are managed more and more effectively
- The turnover ratios (inventory, liabilities and receivables) are kept at the present level
- Debt service ratio is maintained at an adequate level
- Financing the assets with long-term credit in relation to financing with the equity indicates a possibility for greater use of financial leverage
- Solvency ratios are also at an adequate level



Under this scenario, MZK would incur losses during the projection period, which reach over 1.5 million at the most critical point. In spite of the growing cash operating surplus, the loss will be increasing until 2004. This net loss is the result of the implementation of an ambitious investment program in costly fixed assets. The amount of annual depreciation of these assets will be higher than the operating profit. Since depreciation is not a cash expense the negative financial result should not cause concern.

Exhibit 14
Projected Economic Ratios

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Operating costs to operating revenues (%)	88	81	83	89	91	83	84	85	86	87
Operating revenues										
- per 1 employee	46	58	65	73	81	88	97	105	114	123
- per 1 bus	162	202	226	249	274	296	320	346	373	403
Receivables (days)	14	14	14	14	14	14	14	14	14	14
Inventory (days)	10	10	10	10	10	10	10	10	10	10
Accounts payable (days)	22	22	22	22	22	22	22	22	22	22
Debt service ratio	0.0	2.04	1.66	1.22	1.28	2.10	1.35	1.24	1.21	1.52
Financing assets with										
- long-term debt (%)	1	27	27	15	5	26	27	26	19	13
- equity (%)	85	62	64	74	86	66	66	66	72	75
Solvency ratios										
- current	1.90	2.19	1.60	1.27	1.29	1.44	1.41	1.35	1.37	1.30
- quick	1.38	1.62	1.05	0.75	0.79	0.88	0.86	0.81	0.84	0.77

Exhibit 15
Balance Projections for 1997 - 2006 (Scenario 1)

BALANCE	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
ASSETS	4493	4233	6144	7547	8093	9954	12378	14325	11999	12312	10271
<i>Current assets</i>	553	812	1053	885	822	943	1032	1105	1159	1285	1332
- Cash	93	276	398	152	15	55	73	69	40	76	26
- Receivables	269	313	382	428	471	519	560	605	654	706	763
- Inventory	191	222	272	304	335	369	398	430	465	502	542
- Other current assets	1	1	1	1	1	1	1	1	1	1	1
<i>Fixed assets</i>	3940	3422	5091	6662	7271	9011	11346	13220	10840	11027	8939
- Land	212	212	212	212	212	212	212	212	212	212	212
- Buildings and constructions	1154	1118	1083	1047	1011	976	940	905	869	833	798
- Vehicles	2381	1802	3602	5246	5928	7741	10149	12097	9759	9981	7928
- Other fixed assets	189	289	194	156	119	81	44	6	0	0	0
- Investments in progress	4	0	0	0	0	0	0	0	0	0	0
CAPITAL AND LIABILITIES	4493	4233	6144	7547	8092	9954	12377	14325	11999	12311	10271
Special Funds	61	61	61	61	61	61	61	61	61	61	61
Current liabilities	714	428	481	553	646	729	718	783	857	937	1027
Long-term credits	33	23	1638	2007	1250	500	3275	3913	3063	2325	1375
Share capital and reserves	3561	3598	3840	4802	6011	8540	8200	9445	7895	8865	7685
- Share capital	3242	3242	3242	4242	6242	9542	9542	12142	12142	14442	14442
- Reserve capital	355	355	355	355	355	355	355	355	355	355	355
- Retained profits	0	(36)	1	242	204	(586)	(1357)	(1698)	(3053)	(4603)	(5933)
- Net financial result	(36)	37	242	(38)	(790)	(771)	(341)	(1355)	(1550)	(1330)	(1180)

Exhibit 16

Income Statement Projections for 1997 - 2006 (Scenario 1)

[illegible]

Exhibit 17
Cash Flow Projections for 1997 - 2006 (Scenario 1)

CASH	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Operating activities	543	811	1546	1696	1341	1192	2398	2477	2493	2518	2490
Receipts from operating activities	6677	7765	9498	10642	11710	12885	13919	15037	16244	17548	18957
Operating costs	(6075)	(6857)	(7719)	(8875)	(10369)	(11693)	(11521)	(12560)	(13751)	(15030)	(16466)
Other receipts	(12)	0	0	0	0	0	0	0	0	0	0
Income tax	(47)	(97)	(233)	(72)	0	0	0	0	0	0	0
Change in current assets	296	(362)	(66)	(7)	20	2	(82)	(12)	(9)	(10)	(7)
Change in inventory	(1)	(31)	(50)	(33)	(31)	(34)	(30)	(32)	(35)	(37)	(40)
Change in receivables	82	(44)	(70)	(46)	(43)	(47)	(42)	(45)	(49)	(53)	(57)
Change in liabilities	127	(287)	54	72	93	83	(11)	65	74	80	90
Other	88	0	0	0	0	0	0	0	0	0	0
Investing activities	(846)	(250)	(2600)	(2912)	(2402)	(3524)	(4757)	(5137)	(1110)	(3595)	(1294)
Purchase of fixed assets	(846)	(250)	(2600)	(2912)	(2402)	(3524)	(4757)	(5137)	(1110)	(3595)	(1294)
Sale of fixed assets	0	0	0	0	0	0	0	0	0	0	0
Financial activities	33	0	2000	2000	2000	3300	3600	4500	600	3200	400
Issue of stock	0	0	0	1000	2000	3300	0	2600	0	2300	0
Borrowings	33	0	2000	1000	0	0	3600	1900	600	900	400
Investment subsidy from Gmina	0	0	0	0	0	0	0	0	0	0	0
CASH BEFORE DEBT SERVICE	26	199	880	777	958	970	1160	1827	1974	2112	1589
Debt service	0	(16)	(758)	(1023)	(1095)	(929)	(1142)	(1831)	(2003)	(2076)	(1638)
Loan principal payments	0	(10)	(385)	(631)	(757)	(750)	(825)	(1263)	(1450)	(1638)	(1350)
Interests on loans	0	(6)	(373)	(392)	(338)	(179)	(317)	(569)	(553)	(439)	(288)
NET CASH FLOW	26	183	122	(247)	(137)	41	17	(4)	(29)	36	(49)

Scenario 2

In the second scenario, MZK will not receive investment funds from the Gmina. Capital investments will be financed through a combination of cash generated from operations and debt MZK is able to take on its own. Under this scenario, ticket prices must increase at a faster rate than inflation. Initially, the real increase in prices will be as high as 9 percent per year, but in later years prices can be lower than the inflation rate.

Exhibit 18
Projections of Average Full-Fare City Bus Ticket

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Current prices	0.80	1.00	1.19	1.40	1.66	1.81	1.99	2.09	2.19	2.30
% price increase	14	25	19	18	15	12	10	5	5	5
Prices in 1997 PLN	0.80	0.87	0.92	0.99	1.04	1.07	1.09	1.06	1.03	1.01
% real price increase	-2	9	6	7	5	4	2	-3	-3	-3

The only payment from the Municipality to MZK then will be reimbursement of reduced and free rides, as shown in the following tables and graph:

Exhibit 19
Requirements on the Gmina Budget for MZK

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Capital contribution	0	0	0	0	0	0	0	0	0	0
Payment for tickets	2328	2910	3462	4086	4698	5262	5788	6078	6382	6701
Total	2328	2910	3462	4086	4698	5262	5788	6078	6382	6701

Exhibit 20
Requirements on the Gmina Budget 1997 Fixed Prices

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Capital contribution	0	0	0	0	0	0	0	0	0	0
Payment for tickets	2328	2530	2688	2884	3015	3126	3184	3096	3010	2926
Total	2328	2530	2688	2884	3015	3126	3184	3096	3010	2926



Exhibit 21 Requirements on the Gmina Budget for MZK

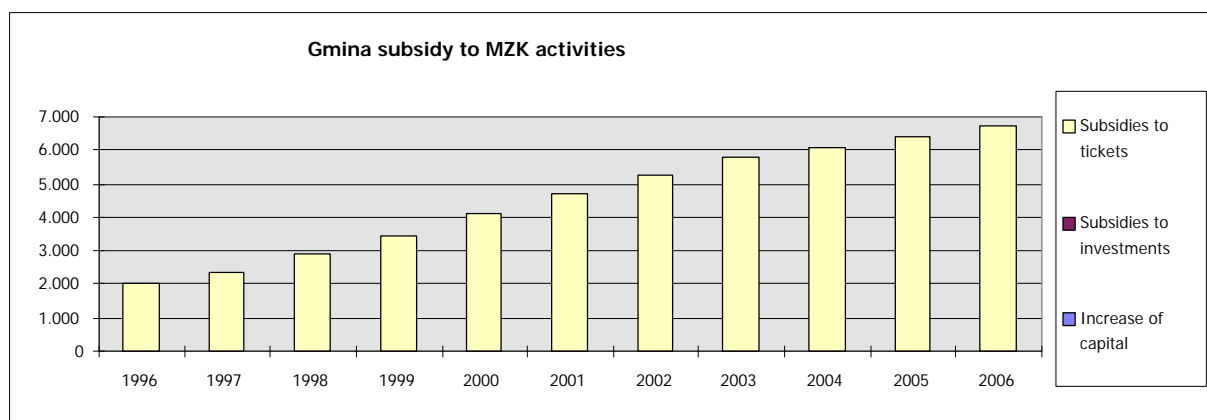


Exhibit 22 Projected Revenues by Type

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues from bus activities	4878	5941	7070	8342	9594	10745	11820	12411	13031	13683
Revenues from other activities	560	648	729	806	891	965	1047	1134	1230	1333
Gmina pymt. for tickets	2328	2910	3462	4086	4698	5262	5788	6078	6382	6701
Total	7765	9498	11262	13234	15183	16973	18654	19623	20642	21716

The primary source of financing capital investments is cash generated from operations. Another source is borrowing for the purchase of buses.

MZK's borrowing level is limited so that the debt service coverage ratio does not fall below 1.2. As shown in Exhibit 23, the level of borrowing in scenario 2 is higher than in scenario 1 because, with higher prices, the company can afford to borrow more. The highest level of borrowing is required in the initial years, after overhauls are discontinued and the greatest number of buses are to be purchased.

Exhibit 23

Projected Borrowing

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
New borrowing	0	2000	1700	1500	2900	3300	3400	0	600	0
Total debt outstanding	0	1625	2613	3000	4238	5475	6313	3725	2213	800

Projected economic ratios under this scenario are shown in Exhibit 24 are also satisfactory under this scenario.

Exhibit 24

Projected Economic Ratios

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Operating costs to operating revenues (%)	88	81	79	78	77	68	67	70	73	76
Operating revenues (PLN '000)	46	58	69	82	95	108	120	126	134	141
- per 1 employee	162	202	240	282	323	361	397	418	439	462
- per 1 bus										
Receivables (days)	14	14	14	14	14	14	14	14	14	14
Inventory (days)	10	10	10	10	10	10	10	10	10	10
Liabilities (days)	22	22	22	22	22	22	22	22	22	22
Debt service ratio	–	2,04	1,79	1,55	1,29	1,56	1,50	1,53	1,88	2,74
Financing assets with										
- long-term debt (%)	1	27	35	36	42	43	43	29	18	7
- equity (%)	85	62	55	53	49	49	50	63	73	83
Solvency ratios										
- current	1,90	2,19	1,52	1,48	1,50	1,75	1,72	2,45	1,55	3,04
- quick	1,38	1,62	0,94	0,89	0,91	1,08	1,04	1,80	0,92	2,44

As shown in this table, the projected economic ratios are also satisfactory under this scenario:

- The Company can generate a surplus on operations
- The assets are managed more and more effectively
- The turnover ratios (inventory, liabilities and receivables) are kept at the present level
- Debt service ratio is maintained at an adequate level

— Solvency ratios are also at an adequate level

In this scenario MZK will generate net profits as a result of adopting a strategy of financing capital investments with the company's own resources, generated by the increase in ticket prices. High depreciation deductions will not exceed operating profits as was the case in scenario 1.

In terms of net profits for the company this scenario is undoubtedly more favorable. Both scenarios are equal in terms of maintaining the effectiveness of the fleet and the current levels of service.

Exhibit 25
Balance Projections for 1997 - 2006 (Scenario 2)

BALANCE	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
ASSETS	4493	4233	6144	7503	8226	10106	12605	14570	12940	12481	12064
<i>Current assets</i>	553	812	1053	842	955	1095	1259	1350	2100	1454	3125
- Cash	93	276	398	66	43	49	90	65	748	32	1629
- Receivables	269	313	382	453	533	611	683	751	790	831	874
- Inventory	191	222	272	322	379	434	486	534	561	591	621
- Other current assets	1	1	1	1	1	1	1	1	1	1	1
<i>Fixed assets</i>	3940	3422	5091	6662	7271	9011	11346	13220	10840	11027	8939
- Land	212	212	212	212	212	212	212	212	212	212	212
- Buildings and constructions	1154	1118	1083	1047	1011	976	940	905	869	833	798
- Vehicles	2381	1802	3602	5246	5928	7741	10149	12097	9759	9981	7928
- Other fixed assets	189	289	194	156	119	81	44	6	0	0	0
- Investments in progress	4	0	0	0	0	0	0	0	0	0	0
CAPITAL AND LIABILITIES	4493	4233	6144	7503	8226	10106	12605	14570	12940	12481	12064
Special Funds	61	61	61	61	61	61	61	61	61	61	61
Current liabilities	714	428	481	553	646	729	718	783	857	937	1027
Long-term credits	33	23	1638	2620	3000	4238	5475	6313	3725	2213	800
Share capital and reserves	3561	3598	3840	4146	4395	4955	6227	7290	8173	9147	10053
- Share capital	3242	3242	3242	3242	3242	3242	3242	3242	3242	3242	3242
- Reserve capital	355	355	355	355	355	355	355	355	355	355	355
- Retained profits	0	(36)	1	242	548	797	1357	2629	3692	4576	5549
- Net financial result	(36)	37	242	306	249	560	1272	1063	883	973	906



Exhibit 26
Income Statement Projections for 1997 - 2006 (Scenario 2)

[illegible]

Exhibit 27
Cash Flow Projections for 1997 - 2006 (Scenario 2)

CASH	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Operating activities	543	811	1546	2104	2607	3031	4548	5309	5185	4859	4526
Receipts from operating activities	6677	7765	9498	11262	13234	15183	16973	18654	19623	20642	21716
Operating costs	(6075)	(6857)	(7719)	(8875)	(10369)	(11693)	(11521)	(12560)	(13751)	(15030)	(16466)
Other receipts	(12)	0	0	0	0	0	0	0	0	0	0
Income tax	(47)	(97)	(233)	(283)	(257)	(458)	(904)	(786)	(687)	(753)	(725)
Change in current assets	296	(362)	(66)	(49)	(43)	(52)	(134)	(51)	8	10	16
Change in inventory	(1)	(31)	(50)	(50)	(56)	(56)	(51)	(48)	(28)	(29)	(31)
Change in receivables	82	(44)	(70)	(71)	(79)	(78)	(72)	(68)	(39)	(41)	(43)
Change in liabilities	127	(287)	54	72	93	83	(11)	65	74	80	90
Other	88	0	0	0	0	0	0	0	0	0	0
Investing activities	(846)	(250)	(2600)	(2912)	(2402)	(3524)	(4757)	(5137)	(1110)	(3595)	(1294)
Purchase of fixed assets	(846)	(250)	(2600)	(2912)	(2402)	(3524)	(4757)	(5137)	(1110)	(3595)	(1294)
Sale of fixed assets	0	0	0	0	0	0	0	0	0	0	0
Financial activities	33	0	2000	1700	1500	2900	3300	3400	0	600	0
Issue of stock	0	0	0	0	0	0	0	0	0	0	0
Borrowings	33	0	2000	1700	1500	2900	3300	3400	0	600	0
Investment subsidy from Gmina	0	0	0	0	0	0	0	0	0	0	0
CASH BEFORE DEBT SERVICE	26	199	880	843	1662	2356	2957	3520	4083	1873	3247
Debt service	0	(16)	(758)	(1175)	(1685)	(2350)	(2916)	(3545)	(3400)	(2589)	(1649)
Loan principal payments	0	(10)	(385)	(719)	(1120)	(1663)	(2063)	(2563)	(2588)	(2113)	(1413)
Interests on loans	0	(6)	(373)	(457)	(565)	(688)	(854)	(983)	(812)	(477)	(237)
NET CASH FLOW	26	183	122	(333)	(23)	6	41	(25)	683	(716)	1597

